# Great Canadian Oil Sands Limited

# 1975 Annual Report

**Directors**

Alex E. Barron, Toronto
*President, Canadian General Investments Limited*

Stanley A. Cowtan, Edmonton

Kenneth F. Heddon, Toronto

Gordon E. Hillhouse, St. Davids, Pa.*
*Executive Vice-President, Sun Oil Company*

Robert McClements, Jr., Dallas, Texas*
*President, Sunoco Energy Development Co.*

Dudley M. McGeer, Toronto

William S. McGregor, Edmonton
*President, Numac Oil and Gas Ltd.*

W. Harold Rea, Toronto
*Vice-President, The Mutual Life Assurance Company of Canada*

H. Robert Sharbaugh, St. Davids, Pa.*
*President, Sun Oil Company*

J. Grant Spratt, Calgary
*Petroleum Consultant*

**Principal Officers**

W. Harold Rea
*Chairman of the Board*

Kenneth F. Heddon
*President*

Stanley A. Cowtan
*Vice-President and General Manager*

Brian T. Abbott
*Vice-President, Logistics*

Dudley M. McGeer
*Vice-President, Administration*

Ardagh S. Kingsmill
*Secretary*

Anthony A. L. Wright
*Treasurer*

Howard B. Maxwell
*Assistant to the President*

*denotes other than Canadian citizen

**Head Office**

20 Eglinton Avenue West
Toronto, Ontario M4R 1K8

**Edmonton Office**

2900 Alberta Telephone Tower
Edmonton, Alberta T5J 1X2

**Transfer Agent and Registrar**

The Canada Trust Company
110 Yonge Street, Toronto, Ontario
10150 100th Street, Edmonton, Alberta
239 8th Avenue S.W., Calgary, Alberta

**General Counsel**

Tilley, Carson & Findlay
Toronto, Ontario

**Annual Meeting**

The Annual Meeting of Shareholders will be held in the Saskatchewan Room, The Edmonton Plaza Hotel, 100 Street and 101A Avenue, Edmonton, Alberta at 10:00 A.M. (Edmonton time) on Tuesday, May 4, 1976.

FRONT COVER—The nation's deteriorating ability to supply its oil and gas needs from domestic sources is spotlighted by this depiction of the energy gap. The top arm symbolizes growing demand for oil and gas — the lower arm the falling producibility of domestic established reserves. Unless exploration and development expand substantially in Canada the gap will grow even wider and it will become more and more necessary to fill it with potentially insecure foreign sources.

# Great Canadian Oil Sands Limited

# 1975 Annual Report

Great Canadian Oil Sands Limited



MID-YEAR REPORT
TO
SHAREHOLDERS

Joe

# GREAT CANADIAN OIL SANDS LIMITED

Financial results for the first half of 1975 indicate that your Company suffered a loss of $10,059,000 on revenues of $45,126,000. For the similar period in 1974, a profit of $2,125,000 was reported, including an extraordinary gain of $680,000 which arose because the income tax provision for the period was offset by reason of prior years' losses. Revenues for the first six months last year were a restated $42,881,000.

The sharp reversal from 1974 resulted from a drop in synthetic crude production and a substantial increase in operating costs. In the first quarter output was lower and costs were higher due to a combination of unusually cold periods and mechanical and electrical problems. During the second quarter, a scheduled biennial maintenance shutdown and subsequent start-up problems also adversely affected production and increased expenses. Inflation intensified the increased costs.

Over the six-month period output reached 6,078,000 barrels, down 1,281,000 barrels from the comparable period last year.

The recent crude price increase announced by the Federal Government which went into effect on July 1 will improve revenues in the last half of the year.

AUGUST, 1975

# GREAT CANADIAN OIL SANDS LIMITED
# CONSOLIDATED INTERIM REPORT
# FOR THE SIX MONTHS ENDED JUNE 30, 1975

## STATEMENT OF INCOME AND DEFICIT

*Six Months ended June 30*

| | *1975* ($000) | *1974** ($000) |
|---|---|---|
| REVENUE | | |
| Sales of synthetic crude and other products | 43,826 | 42,108 |
| Interest | 662 | 600 |
| Other | 638 | 173 |
| | 45,126 | 42,881 |
| COSTS AND EXPENSES | | |
| Costs, operating, administrative and general expenses | 47,874 | 33,745 |
| Amortization of deferred development, preproduction and start-up costs | 730 | 881 |
| Depreciation | 3,649 | 3,355 |
| Interest | 2,932 | 2,775 |
| | 55,185 | 40,756 |
| INCOME (LOSS) BEFORE INCOME TAX | (10,059) | 2,125 |
| Income tax provision | — | 680 |
| INCOME (LOSS) BEFORE EXTRAORDINARY ITEM | (10,059) | 1,445 |
| Extraordinary item — elimination of income tax provision due to prior years' losses | — | 680 |
| INCOME (LOSS) FOR THE PERIOD | (10,059) | 2,125 |
| DEFICIT January 1 | (78,210) | (90,243) |
| DEFICIT June 30 | (88,269) | (88,118) |

**Restated to conform with 1975 presentation.*

*The above figures are unaudited*

## STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

*Six Months ended June 30*

| | *1975* ($000) | *1974* ($000) |
|---|---|---|
| SOURCES OF WORKING CAPITAL | | |
| From operations — | | |
| Income for the period (before charges for depreciation and amortization of $4,236,000 which did not involve the use of funds) | — | 6,361 |
| Net reduction in deferred overburden removal costs | — | 616 |
| Total working capital from operations | — | 6,977 |
| Mortgages on houses (net) | 3,871 | 738 |
| | 3,871 | 7,715 |
| APPLICATION OF WORKING CAPITAL | | |
| To operations — | | |
| Loss for the period (before charges for depreciation and amortization of $4,379,000 which did not involve the use of funds) | 5,680 | — |
| Net increase in deferred overburden removal costs | 1,272 | — |
| Total working capital to operations | 6,952 | — |
| Plant facilities and housing | 11,721 | 4,627 |
| Transfer to current liabilities of 6% debentures due May 15, 1975 | — | 12,355 |
| | 18,673 | 16,982 |
| Decrease in Working Capital | 14,802 | 9,267 |

*The above figures are unaudited*

## Highlights of the year

| | | 1975 | 1974 |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Financial | Revenues | **124,434** | 108,128 |
| | Profit (loss) before extraordinary item | **(3,641)** | 7,151 |
| | Net profit (loss) for the year | **(991)** | 12,033 |
| | Cash flow from operations | **7,724** | 22,038 |
| | Capital expenditures | **25,456** | 18,531 |
| | Total assets | **332,811** | 310,325 |
| | Accumulated deficit | **79,201** | 78,210 |
| Operating | Average daily production of synthetic crude (barrels) | **42,555** | 45,695 |
| | Overburden removed (thousands of cubic yards) | **10,071** | 9,321 |
| | Oil sands mined (thousands of short tons) | **32,712** | 34,522 |


The company works with the Alberta government on environmental protection efforts. Here an oil spill clean-up demonstration is held for government environmental and natural resource people.

Members of the Parliamentary Standing Committee on Natural Resources from Ottawa visited the GCOS site.

**Report of the Directors**

## THE YEAR IN REVIEW

It is disappointing to report that for 1975 your company showed a loss of close to $1 million. This compares with a profit of $12 million for 1974. The loss for 1975 is after an extraordinary gain of $2.6 million and the 1974 figure includes a restated extraordinary gain of $4.9 million.

While results for the year fell substantially short of company expectations, it is encouraging to note that sustained production at relatively high levels during the second half of 1975 came close to erasing a first-half loss of $10 million.

Revenues during 1975 rose to $124.4 million from $108.1 million in 1974 despite a decline in sales of synthetic crude to 15,651,000 barrels from 16,473,000 barrels in 1974. Average daily production slipped to 42,600 barrels from 45,700 barrels in 1974 although in the fourth quarter of 1975 production rose to 54,700 barrels daily. Revenues were higher, despite lower overall production, reflecting the increase in the price of crude oil effective July 1.

Production during the first half of 1975 fell sharply because of exceptionally cold weather, problems in mining and process operations, a planned maintenance shutdown in April and May and extensive start-up difficulties following the shut-down. Operating costs continued to rise, largely as a result of inflation, higher maintenance requirements and sharply increased wages and benefits.

Cash generated by operations in 1975 was again insufficient to sustain needed capital expenditures and the company's working capital position deteriorated further. Short-term borrowings rose to nearly $40 million at year-end compared to just under $10 million a year earlier.

Capital spending for the year totalled just over $25 million. Of that amount $17 million were spent on plant improvements including extension of the mine conveyor system, purchase of mobile equipment and payments on a third bucketwheel excavator expected to be in operation by summer of 1976. The new bucketwheel is designed for use in overburden removal operations. As well, it can be used for oil sands mining if necessary.

On November 1, 1975, the company's subsidiary, Athabasca Realty Company Limited (ARC), implemented an improved housing policy for company employees. The new policy provides substantial benefits for employees while permitting ARC to recover a more reasonable proportion of its housing costs.

In essence, the new policy provides an opportunity for employee home ownership with clear title after eight years, rather than the 10-year period specified in the old policy. The new plan also provides a vesting procedure for employees on home purchase agreements. This procedure permits them to participate in possible capital appreciation should they leave the company. It also protects employees against possible loss on their housing investment. Other features of the new policy include a lot purchase plan, an expanded rental accommodation plan and an improved warranty program.

Under the old plan, houses were sold to employees at ARC cost. Under the new plan, houses will be sold at replacement cost.

During the year, the company's Alberta issue of six per cent debentures totalling $12 million was paid on maturity. To mark this participation of Alberta residents in its operations, the company minted and distributed a commemorative medallion to debenture holders. The message from the company accompanying the medallion read as follows:

"Ten years ago, through the purchase of Great Canadian debentures, you and more than 100,000 other Albertans joined with Great Canadian Oil Sands Limited and Sun Oil Company in the creation of the world's first oil sands mine. You have helped pioneer a very difficult venture that today stands as a milestone in realizing the potential of this unique Alberta resource.

"In commemoration we have commissioned the special minting of an original medallion:
Pioneering Energy Together — 1975

"We hope you will value this medallion as a gesture of our sincere appreciation of your faith and confidence in Great Canadian Oil Sands. Your role has been an important one — your participation historic."

The response by our debenture holders was extraordinary. Particularly impressive were the many expressions of appreciation for the opportunity to participate in the company's venture and the expressions of support for the company. Such a large and gratifying response is particularly noteworthy in the light of much recent criticism of our industry.

Your Directors feel that shareholders would also value this medallion. Accordingly the company will shortly mail a commemorative medallion to each shareholder.

During the year, Stanley A. Cowtan was appointed vice-president and general manager of GCOS. Mr. Cowtan, who is headquartered in Edmonton, succeeded Reginald D. Humphreys who was appointed vice-president, Sun Oil Company of Canada Limited, Toronto but resigned later in the year to open his own consulting firm. Mr. Cowtan joined Sun Oil Company Limited in 1953 and, after serving in Toronto, Montreal and Ottawa, was appointed manager, Commercial Sales, in 1970. He was appointed director of Manufacturing and Conservation, Sun Oil Company Limited in 1974.

## THE COMPANY IN PERSPECTIVE

The environment in which GCOS operates has changed markedly from that in which it was initiated. When the company decided to build its plant in 1963 it knew that there were unsolved technological problems but it also believed that such problems could be solved. It was clear, even then, that demand for energy would outstrip domestic supply and that development of the oil sands could help to hold down dependence on foreign, potentially insecure sources of supply. The company also realized that production of synthetic crude from oil sands was a high-cost operation compared with conventional oil production, but it believed that market forces would tend to push up the price of crude oil. Perhaps most significantly of all, the inflation rate had been a modest one to two per cent per year prior to 1963.

In practice, the technological problems turned out to be more intractable, and more numerous, than expected. Additionally, the inflation rate rose sharply while crude oil prices remained unchanged to 1970. Crude oil prices rose slowly from 1970 to 1973 and then, spurred by the actions of the Organization

of Petroleum Exporting Countries, jumped sharply higher. At the same time the nations of the western world experienced exceptionally high rates of inflation.

The Canadian response has been to hold the price of oil below world prices but to permit a gradual increase to world levels over time. Simultaneously, an export tax was placed on all shipments of crude oil to the United States.

All these factors — technological problems, inflating costs and price controls — have placed an especially severe strain on GCOS because it is, uniquely in the oil industry, both labour and capital intensive. As shareholders are aware, these factors persuaded the company not to proceed with a contemplated major one-step expansion.

Despite this decision, however, and as a result of its continuing program to increase operational efficiency, the company has set its sights on the goal of overcoming production instability and simultaneously achieving the highest possible output. In 1976, for example, we hope to reach an average daily production level of 50,000 barrels.

Production instability has been an operational fact of life since the plant went into operation. Production swings can range from zero barrels daily to 70,000 barrels daily over a period of just a few days. Such instability is a function of the plant's complexity as well as its domino-like structure. Various components cannot be effectively uncoupled with the result that trouble in one area can affect all other areas. Continuing efforts are being made to minimize this problem.

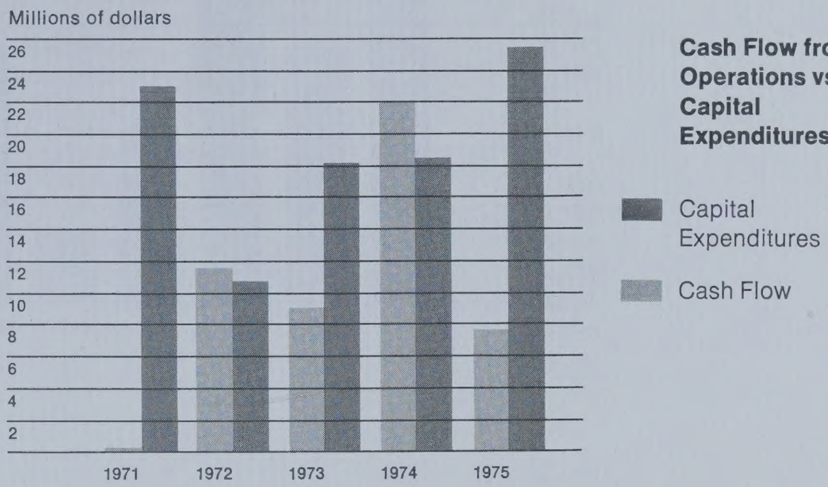
Capital expenditures, including deferred pre-production costs, in GCOS now total about $389 million of which more than $117 million have been spent since the beginning of 1968, the year the company began production. We foresee this heavy demand for capital continuing.

It is, perhaps, worth reflecting on what those capital expenditures have accomplished. They have, first of all, unlocked the vast potential of the oil sands for Canada and, in doing so, have created a new technology through which some 10 per cent — containing an estimated 25 billion barrels of synthetic crude oil — of the oil sands is now available for development. Techniques and processes to extract much of the remaining reserves will come as more knowledge is gained by the industry.

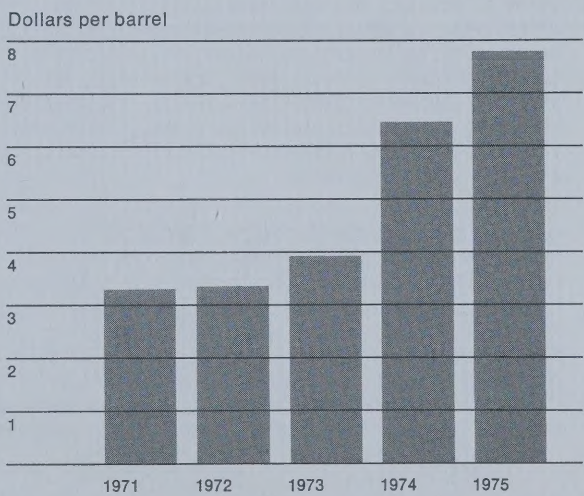
In becoming the first commercial producer of synthetic crude from the oil sands, the company has also, in effect, created a modern, prosperous community. At year end the company was providing employment for more than 1,600 men and women and in 1975 wages and benefits of more than $40 million were paid. Most GCOS employees live in Fort McMurray, 20 miles south of the plant where the company has provided some 1,400 housing units.

As mentioned earlier, GCOS is labour intensive. Much of the labour required is highly skilled and Fort McMurray's relatively remote location provides great incentive for the company to make employment with it attractive over the long term.

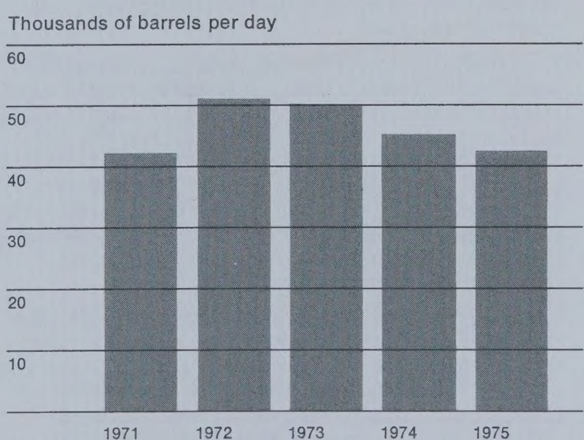
To maintain and further upgrade skills, some 16 on-site training courses are offered. Among the subjects taught are electronics, hydraulics, and inventory management and control. Off-site the company makes




**Cash Flow from Operations vs. Capital Expenditures**

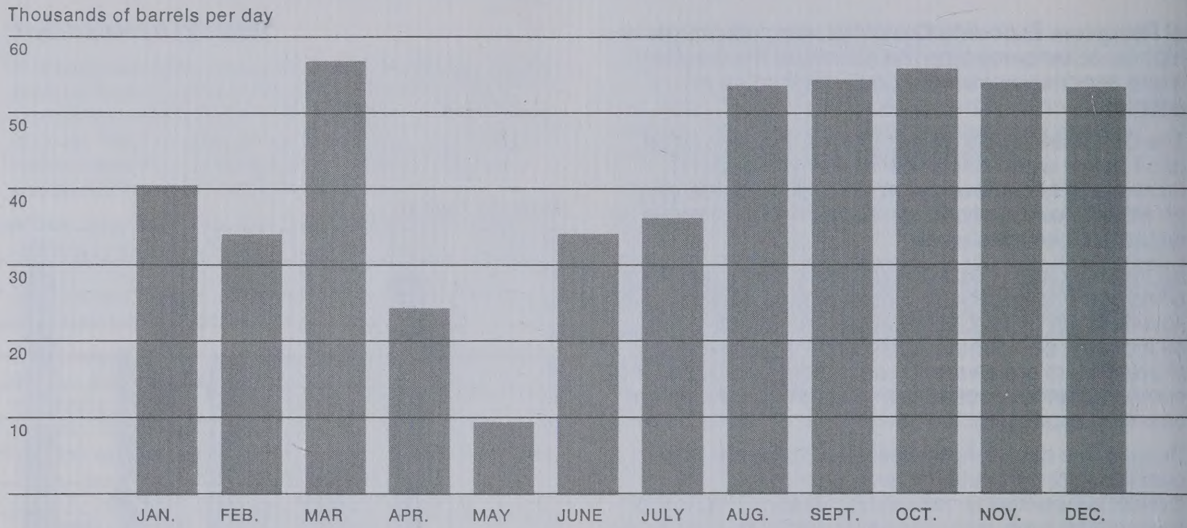



**Average Selling Price per Barrel of Synthetic Crude**




**Synthetic Crude Production**

**Synthetic Crude Production 1975**




some 56 courses and seminars available. These include key punch operations, interpersonal skills, purchasing, salary administration, group problem solving, process analysis, economic analysis for industry, Canadian government affairs, critical path methods, and alcohol and drugs. During 1975, some 850 employees participated in both on-site and off-site training programs.

The company also believes that it has significant responsibilities to the Native peoples of the area. The company co-operates with these peoples and the Federal Department of Indian and Northern Affairs in developing special on-the-job training programs. The twelfth such program was conducted during 1975. The company regards the Native and Métis people of Alberta as a significant component of the overall labour market but also recognizes that their heritage and culture are different from those of the majority of employees. For this reason the company provides a mechanism to permit such prospective employees to evaluate, on their own, whether they feel suited to employment with GCOS. At present about 125 Native and Métis people are employed on-site.

It is gratifying to note the progress of the Syncrude project and to realize that GCOS will soon no longer be alone in commercial development of the oil sands. At the same time, it should be recognized that the growing presence of the Syncrude project is creating some difficulties for GCOS. Demand for skilled tradespeople and engineering talent has increased sharply and GCOS is finding it increasingly difficult to recruit new employees. These difficulties are expected to increase during 1976.

The cover of this year's Annual Report reflects your Directors' concern with the widening gap between demand for crude oil and the producibility of domestic, established reserves. During 1975, the National Energy Board published a report which forecast an increase in demand to about 3,300,000 barrels a day by 1994, from current consumption of about 1,750,000 barrels a day. At the same time, producibility from established conventional areas was forecast to decline from the present level of about 1,750,000 barrels a day to less than 250,000 barrels a day by 1994, resulting in a deficiency of more than 3,000,000 barrels per day.

Whatever hope Canada may entertain of lessening its dependence on foreign crude lies in the discovery and development of new Frontier sources and in the further development of the Athabasca oil sands. GCOS believes that it is in Canada's interest, as well as its own, to develop the oil sands as quickly and efficiently as prudent husbandry permits. There are major problems which must be solved before substantial increases in production can be achieved; but the problems are soluble. GCOS believes that further development of the oil sands presents a significant opportunity for co-operation between industry and government in the public interest and, for its part, welcomes that opportunity.

W. H. Rea

W. Harold Rea, *Chairman of the Board*

K. F. Heddon

K. F. Heddon, *President*

FEBRUARY 27, 1976

**Revenues, Expenses and Profit**

***Performance***
for the year ended December 31

| | | 1975 | 1974 |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Revenues | Sales and other operating | **$122,899** | $106,927 |
| | Interest | **1,535** | 1,201 |
| | | **124,434** | 108,128 |
| Expenses | Overburden removal (note 4) | **9,102** | 7,299 |
| | Plant operations | **68,773** | 48,239 |
| | Depreciation (note 4) | **8,828** | 7,796 |
| | Amortization of deferred preproduction costs | **1,862** | 1,995 |
| | Loss on disposals of plant, equipment and housing | **452** | 1,863 |
| | Crown royalty | **14,785** | 12,832 |
| | Lease royalty (notes 10 and 12) | **5,472** | 4,359 |
| | Administrative and general | **9,386** | 6,170 |
| | Interest (note 5) | **6,765** | 5,542 |
| | Income tax provision (note 6) | **2,650** | 4,882 |
| | | **128,075** | 100,977 |
| Profit (loss) before extraordinary item | | **(3,641)** | 7,151 |
| Extraordinary item (note 6) | | **2,650** | 4,882 |
| Net profit (loss) for the year | | **$ (991)** | $ 12,033 |

*See accompanying notes*

**Auditors' Report**

To the Shareholders of
Great Canadian Oil Sands Limited:

We have examined the consolidated statement of financial position of Great Canadian Oil Sands Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of performance and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**Clarkson, Gordon & Co.**
Chartered Accountants
Edmonton, Canada
January 23, 1976

Great Canadian Oil Sands Limited and Subsidiaries

**Assets, Liabilities and Shareholders' Equity**

***Financial Position***
as at December 31

| | | 1975 | 1974 |
|---|---|---|---|
| | | (dollars in thousands) | |
| Cash And Items Convertible To Cash Within One Year | Cash | **$ 43** | $ 427 |
| | Amounts due from: | | |
| | Customers | **8,750** | 6,476 |
| | Affiliated companies | **4,339** | 2,073 |
| | Others | **1,726** | 1,406 |
| | Inventories: | | |
| | Finished product | **3,455** | 2,987 |
| | Materials and supplies | **12,992** | 10,591 |
| | Prepaid charges | **3,987** | 2,326 |
| | | **35,292** | 26,286 |
| Deduct: Liabilities Payable Within One Year | Short-term borrowings | **39,660** | 9,350 |
| | Amounts due to: | | |
| | Suppliers | **8,731** | 10,869 |
| | Affiliated companies | **84** | 1,322 |
| | Others | **4,684** | 3,694 |
| | Taxes other than income taxes | **3,814** | 172 |
| | 6% unsecured debentures (Alberta issue) due May 15, 1975 | **—** | 12,354 |
| | Current portion of long-term borrowings | **2,448** | 2,651 |
| | | **59,421** | 40,412 |
| Working Capital Deficiency | | **(24,129)** | (14,126) |
| Add: Other Assets | Properties, plant and equipment (note 7) | **188,810** | 182,465 |
| | Housing (note 7) | **33,927** | 28,828 |
| | Expenses for the benefit of future years: | | |
| | Deferred preproduction costs (note 3) | **54,070** | 55,932 |
| | Deferred overburden removal costs | **20,712** | 16,814 |
| | | **297,519** | 284,039 |
| | | **273,390** | 269,913 |
| Deduct: Liabilities Payable Beyond One Year (note 8) | Notes | **40,864** | 43,015 |
| | Mortgages on housing | **20,495** | 13,878 |
| | | **61,359** | 56,893 |
| Shareholders' Equity | | **$212,031** | $213,020 |

| | | 1975 | 1974 |
|---|---|---|---|
| | Shareholders' equity consists of: | | |
| | Paid-in capital (note 9) | | |
| | Preferred shares | **$165,000** | $165,000 |
| | Common shares | **126,232** | 126,230 |
| | | **291,232** | 291,230 |
| | Deficit | | |
| | Beginning of year | **(78,210)** | (90,243) |
| | Net profit (loss) for the year | **(991)** | 12,033 |
| | End of year | **(79,201)** | (78,210) |
| | | **$212,031** | $213,020 |

*See accompanying notes*

On behalf of the board
W. H. Rea, Director
D. M. McGeer, Director

## Source and Use of Working Capital

***Changes in Financial Position***
for the year ended December 31

| | | 1975 | 1974 |
|---|---|---|---|
| | | (dollars in thousands) | |
| Source Of Working Capital | Profit (loss) before extraordinary item | **$ (3,641)** | $ 7,151 |
| | Add back (deduct) items not affecting working capital: | | |
| | Extraordinary item (note 6) | **2,650** | 4,882 |
| | Depreciation (note 4) | **8,828** | 7,796 |
| | Amortization of deferred preproduction costs | **1,862** | 1,995 |
| | Net increase in deferred overburden removal costs (note 4) | **(2,427)** | (1,649) |
| | Loss on disposals of plant, equipment and housing | **452** | 1,863 |
| | | **7,724** | 22,038 |
| | Disposals of plant, equipment and housing | **3,261** | 1,530 |
| | Issue of common shares (note 9) | **2** | 1 |
| | New mortgages payable on housing | **7,212** | 3,296 |
| | Additions to working capital | **18,199** | 26,865 |
| Use Of Working Capital | Purchases of properties, plant and equipment | **17,283** | 8,985 |
| | Housing | **8,173** | 9,546 |
| | Notes, mortgages payable on housing, and debentures maturing within one year | **2,746** | 15,085 |
| | Reductions in working capital | **28,202** | 33,616 |
| Net Decrease In Working Capital | | **(10,003)** | (6,751) |
| Working Capital Deficiency | — beginning of year | **(14,126)** | (7,375) |
| Working Capital Deficiency | — end of year | **$(24,129)** | $(14,126) |

| | | | |
|---|---|---|---|
| Analysis Of The Change In Working Capital | Cash | **$ (384)** | $ 182 |
| | Amounts due from customers, affiliated companies and others | **4,860** | 1,166 |
| | Inventories | **2,869** | 3,421 |
| | Prepaid charges | **1,661** | 564 |
| | Short-term borrowings | **(30,310)** | 5,650 |
| | Amounts due to suppliers, affiliated companies and others | **2,386** | (5,108) |
| | Taxes other than income taxes | **(3,642)** | (77) |
| | Current portion of long-term borrowings | **12,557** | (12,549) |
| | Net decrease in working capital | **$(10,003)** | $ (6,751) |

*See accompanying notes*

## Notes to Consolidated Financial Statements
December 31, 1975

### 1. Summary of significant accounting policies

(a) Consolidation —
The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.
(b) Inventories —
Inventories are valued at the lower of average cost and estimated net realizable value.
(c) Depreciation and amortization —
The company's productive facilities are being depreciated using a unit of production method based on estimated reserves. Furniture and fixtures and mobile equipment are being depreciated on a straight-line basis over their estimated useful life periods ranging from two to ten years. Rental housing units are being depreciated on a straight-line basis over five years (trailers) and twenty-five years (buildings).
Deferred preproduction costs are being amortized against income using a unit of production method based on estimated reserves.
Deferred overburden removal costs are being charged to production on the basis of the area actually mined.
(d) Maintenance, repairs and shutdown expenses —
Normal maintenance and repairs are charged to expense as incurred. The cost of major maintenance shutdowns is estimated and accrued over the period between each shutdown.

### 2. Changes in statement presentation

The 1975 statements reflect several terminology and category changes as well as a revised layout for the Statement of Financial Position. The prior years' figures have been similarly re-classified for comparative purposes.

### 3. Estimated reserves

For the purposes of determining the amounts of certain depreciation and amortization in the accounts, the remaining reserves of synthetic crude oil at December 31, 1975, have been estimated at approximately 472,000,000 barrels, including an estimated 15,000,000 barrels added during the year as a result of acquiring Lease 23-A (291 acres) adjoining Bituminous Sands Lease No. 86. The actual quantity capable of economic recovery will depend in part upon the future relationship between synthetic crude selling prices and costs.

### 4. Depreciation on overburden removal equipment

The depreciation provision for the year ended December 31, 1975, includes depreciation of $1,471,000 (1974—$1,211,000) on overburden removal equipment which was charged to deferred overburden removal costs. Overburden removal costs charged to operations during the year (based on the area mined) include $1,108,000 (1974 — $957,000) in respect of depreciation previously charged to the deferred account.

### 5. Interest expense

| | 1975 | 1974 |
|---|---|---|
| Short-term borrowings | $2,488,000 | $1,350,000 |
| Notes, debentures and mortgages on housing | 4,277,000 | 4,192,000 |
| | $6,765,000 | $5,542,000 |

### 6. Income tax provision and extraordinary item

(a) Income tax provision —
Crown royalties in respect of production after May 6, 1974, may not be deducted in computing income subject to income tax. Such royalties amounted to $14,785,000 in 1975 and $10,121,000 in 1974. Since the Alberta government rebates to producers the additional Alberta income tax payable as a result of including Crown royalties in income subject to tax, the provisions for Alberta income taxes for 1975, and for 1974 (as restated), have been reduced by the amount of such rebates.
(b) Extraordinary item —
The extraordinary item represents the reduction of income taxes resulting from the application of prior years' expenses not previously claimed for tax purposes. At December 31, 1975 the amount of prior years' expenses not claimed for tax purposes is estimated at approximately $6,000,000. Of the $32,000,000 prior years' loss carry-forward referred to in last year's statements, $11,000,000 expired in 1975, and $15,000,000 was utilized in eliminating 1975 income otherwise taxable.
Although the rebate of Alberta income tax in respect of disallowed Crown royalties (note (a) above) cannot exceed the amount of Alberta income tax payable, unused rebates may be carried forward to future years. At December 31, 1975, the rebates which may be carried forward amount to approximately $2,700,000 (1974 — $1,100,000).
(c) Restatement of 1974 income tax provision and extraordinary item —
The income tax provision and extraordinary item shown for 1974 have been restated from the figures reported a year ago to reflect:
(i) the effect of the Alberta government rebate program discussed above, which was enacted in 1975 with retroactive effect to May 6, 1974, and
(ii) a change in the regulations relating to earned depletion promulgated in 1975 with retroactive effect to May 6, 1974.

This restatement has the effect of reducing the 1974 income tax provision and the extraordinary item by $3,130,000. The restatement has no effect on net profit for the year.

**7. Properties, plant and equipment, and housing**

(a) Properties, plant and equipment —
Properties, plant and equipment are at cost less accumulated depreciation 1975 — $51,648,000; 1974 — $43,821,000.

| (b) Housing — | 1975 | 1974 |
|---|---|---|
| Lots, rental housing and housing under construction, at cost, (less accumulated depreciation 1975 — $843,000; 1974 — $527,000): | $18,358,000 | $13,397,000 |
| Agreements for sale receivable, at the lower of cost or selling price of houses sold, less principal payments received to date, and less principal due within one year: | 15,569,000 | 15,431,000 |
| | $33,927,000 | $28,828,000 |

**8. Liabilities payable beyond one year**

(a) Notes —
These are 5¾% notes due July 1, 1991, repayable in U.S. currency; 1975 — $38,000,000; 1974 — $40,000,000. The translation to Canadian currency is on the basis of exchange rates prevailing at the date of issue. The terms of the notes require annual pre-payments on July 1 of U.S. $2,000,000. The company is permitted to make optional additional annual payments of up to U.S. $2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

(b) Mortgages on housing —
These mortgages are repayable over terms up to 30 years and bear interest at rates ranging from 6¼% to 11%. The estimated principal repayments required on the non-current portion of mortgages payable at December 31, 1975 are as follows:

1977 — $541,000 1978 — $592,000
1979 — $647,000 1980 — $708,000
Subsequent to 1980 — $18,007,000

**9. Paid-in capital**

Authorized —
2,000,000 Voting Preferred Shares of $100 par value each consisting of

500,000 First Preferred Shares
500,000 Second Preferred Shares
450,000 Third Preferred Shares and
550,000 Fourth Preferred Shares (issuable in series)

35,000,000 Common Shares without nominal or par value

| Issued — | 1975 | 1974 |
|---|---|---|
| 7% Non-cumulative redeemable (at par) Preferred Shares | | |
| 500,000 First Preferred Shares | $ 50,000,000 | $ 50,000,000 |
| 500,000 Second Preferred Shares | 50,000,000 | 50,000,000 |
| 450,000 Third Preferred Shares | 45,000,000 | 45,000,000 |
| 200,000 Fourth Preferred Shares, Series A | 20,000,000 | 20,000,000 |
| | $165,000,000 | $165,000,000 |
| 28,504,259 Common Shares (1974 — 28,504,109) | $126,232,000 | $126,230,000 |

All of the preferred shares, and 96.1% of the common shares, are owned by Sun Oil Company.

During the year 150 Common Shares were issued upon partial conversion of certain of the 6% unsecured debentures (Alberta issue).

**10. Commitments and contingent liabilities**

(a) The company is a party to an agreement with Sun Oil Company Limited and CIGOL International Ltd. involving the sublease of Bituminous Sands Lease No. 86 in respect of which the company is operating its plant. Lease No. 86 runs for a term of 21 years from June 1, 1966, renewable for further terms each of 21 years subject to such terms and conditions as may be prescribed. The company is obligated under the provisions of the agreement to pay Sun and CIGOL a basic royalty of 10 cents per barrel of bitumen extracted or recovered from bituminous sands from the leased land together with an additional royalty of 25% of synthetic crude revenues in excess of $2.75 per barrel (declining to $2.60 in the future under certain conditions) and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. Such royalties are payable 75% to Sun and 25% to CIGOL (See Note 12 re waiver by Sun.)

Also, under this agreement the company has assumed an indebtedness to the Government of Canada of $1,802,107, in respect of certain wartime expenditures in the Athabasca oil sands area. Principal payments on this debt have been deferred on an interest-free basis until 1978. As the company hopes to obtain relief from this debt, it has not been recorded in the accounts of the company.

(b) Under the provisions of the sale agreements covering the sale of housing units to employees, the company has undertaken in the event of employee termination within up to twelve years of the date of the sale agreement, to re-purchase the employee's housing unit. The potential net outlay under such re-purchase commitments is the principal amount paid by the employee to the date of termination plus a portion of any increase in replacement cost between

the effective dates of sale and re-purchase. The aggregate of such principal amounts paid by employees to December 31, 1975, approximates $1,161,000, but any additional potential outlay resulting from increases in replacement costs cannot be determined until an employee actually terminates employment.

(c) The company is a party to long-term agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of synthetic crude oil.

(d) The company's unfunded past service pension liability at December 31, 1975 is estimated at approximately $1,700,000. This amount will be funded and charged to income over the next fourteen years.

(e) Commitments for capital expenditures at December 31, 1975, totalled approximately $8,000,000.

**11. Directors and officers**

Twelve persons were directors of the company during 1975, only certain of whom were paid as such, and their remuneration aggregated $12,250. Twelve persons were officers during 1975, only certain of whom were paid as such; remuneration of officers aggregated $366,900. Seven officers were also directors.

**12. Lease royalty waiver**

Sun Oil Company Limited has waived, effective April 1, 1970, the royalties to which it is entitled under the agreement described in note 10 (a) until the elimination of the company's deficit account or a determination that the financial results from the company's operations are satisfactory. The reduction in costs due to this temporary relief is: 1975 — $16,416,000; 1974 — $13,077,000.

**13. Preferred share dividends and earnings per share**

The $165,000,000 preferred shares carry a 7% non-cumulative dividend; no dividends have been declared or paid to date. Were a deduction made for a full annual dividend of $11,550,000 on the outstanding preferred shares the earnings per common share would be as follows:

| | 1975 | 1974 |
|---|---|---|
| Profit (loss) per share before extraordinary item | $ (0.53) | $ (0.15) |
| Net profit (loss) per share | (0.44) | 0.02 |

"Basic earnings" per common share, which are computed without deduction for preference share dividends (since none have been declared), are as follows:

Profit (loss) per share before extraordinary items: 1975 — $(0.13); 1974 — $0.25.

Net profit (loss) per share: 1975 — $(0.03); 1974 — $0.42.

**Financial and Operating Summary**

| Financial | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| | | | (Thousands of dollars) | | |
| Revenues | 124,434 | 108,128 | 73,231 | 63,330 | 51,457 |
| Expenses | 128,075 | 100,977 | 75,548 | 64,010 | 59,703 |
| Profit (loss) before extraordinary item | (3,641) | 7,151 | (2,317) | (680) | (8,246) |
| Extraordinary item | 2,650 | 4,882 | — | — | — |
| Net profit (loss) for the year | (991) | 12,033 | (2,317) | (680) | (8,246) |
| Items not affecting working capital | 8,715 | 10,005 | 11,463 | 12,391 | 8,394 |
| Cash flow from operations | 7,724 | 22,038 | 9,146 | 11,711 | 148 |
| Shareholders' equity: | | | | | |
| Paid-in capital | 291,232 | 291,230 | 291,229 | 291,199 | 291,198 |
| Deficit | (79,201) | (78,210) | (90,243) | (87,926) | (87,246) |
| Capital expenditures | 25,456 | 18,531 | 18,069 | 10,717 | 23,112 |

| Operating | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| Overburden removed (thousands of cubic yards) | 10,071 | 9,321 | 11,902 | 12,944 | 8,280 |
| Oil sands mined (thousands of short tons) | 32,712 | 34,522 | 36,066 | 39,223 | 33,220 |
| Synthetic crude sold (thousands of barrels) | 15,651 | 16,473 | 18,382 | 18,377 | 15,504 |
| Sulphur produced (thousands of long tons) | 74 | 86 | 95 | 86 | 61 |

A

B


C

A. Stanley A. Cowtan was appointed vice-president and general manager in July.

B. Maurice B. Parmelee, (left) treasurer and director retired in June, 1975. Retirement gift on behalf of plant is presented by Reginald D. Humphreys, former vice-president and general manager.

C. Ralph G. Steinhauer, lieutenant-governor of Alberta (right) presents Jim Metchewais with certificate marking successful graduation from Training-on-the-Job program. The T.O.J. Program is conducted by GCOS for native people in the oil sands area. Jim is now employed in the Mine Maintenance Department.

D. The Birch Grove subdivision, Fort McMurray is typical of GCOS employee housing. The company's housing subsidiary, Athabasca Realty Company Limited, introduced an improved employee housing program in 1975.

E. A delegation from the People's Republic of China stands besides the wheel of one of the 150-ton trucks used for overburden removal.

F. A troop of girl guides was one of the many groups to visit GCOS in 1975. More than 12,000 people toured the plant last year.

G. Company employees and other town residents formed the Razzmatazz Jazz Band to help celebrate the Blueberry Festival, an annual event in Fort McMurray.

H. Directors' barbecue is an annual fun and feasting festival for company employees.

D

E

F

G

H

**Parent Company**

Sun Oil Company,
St. Davids, Pennsylvania

**Subsidiary Companies**

Athabasca Realty Company Limited
Fort McMurray and Edmonton, Alberta
*Employee housing*

Great Canadian Oil Sands Supply Limited
Fort McMurray and Edmonton, Alberta
*Provision of materials and supplies*

**Associated Companies in Canada**

Sun Oil Company Limited and its subsidiaries
Toronto, Ontario
*Integrated petroleum company*

Sperry-Sun of Canada Limited
Edmonton, Alberta
*Well surveying and engineering services*

Sunray DX Canada Oil Company
Sunray DX Northern Oil Co. Ltd.
Sunray DX Western Oil Co. Ltd.
Calgary, Alberta
*Exploration and production in Western Canada*

A member of the SUNOCO Group of companies